

VERMONT PENSION INVESTMENT COMMISSION

**TOM GOLONKA, CHAIR
JANUARY 17, 2023**

VPIC PURPOSE AND HISTORY

- *The Vermont Pension Investment Commission (“VPIC”) combines the assets of the three Vermont Retirement Systems for the purpose of cost- and resource-efficiency, the effectiveness of oversight and management, and maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems.*
- *The mission of the VPIC is to manage the investments with integrity, prudence, and skill to meet or exceed the financial objectives of the beneficiaries of the participating retirement systems.*
- *On June 8, 2021, Governor Scott signed H.449 into law, (ACT 75) creating the Vermont Pension Investment Commission. The Commission is an independent entity that is the successor to the Vermont Pension Investment Committee.*

VPIC ORGANIZATIONAL CHART



General Investment Consultant
Hired by the Commission

VPIC Staff
Hired by the Commission

Outside Counsel
Provided by the AGO

Color denotes Alternate

VPIC INVESTMENT THEMES

- ***Simplify the Investment Process***
- ***Reduce Fees Where Appropriate***
- ***Underwrite Everything***
- ***Illiquidity Premium Increases Returns***
- ***Liquidity of Underlying Pension Plans Needs to be Fully Understood and Incorporated***
- ***Net Returns must Justify all Investment Manager Fees***

PERFORMANCE MEASUREMENT

VPIC's long-term success will be measured by the portfolio's ability to provide benefits to pension beneficiaries. Progress toward the achievement of this objective will be measured by the following intermediate measures:

- A net investment return, over rolling 5-year periods, which meets or exceeds the actuarially-established rate of return.*
- To generate a total net portfolio return, which exceeds the Allocation Index Return.*
- The VPIC will also make qualitative assessments of its performance by examining the asset allocation, investment strategy, and investment results of a peer group of public defined benefit retirement systems with like investment characteristics and risk parameters.*

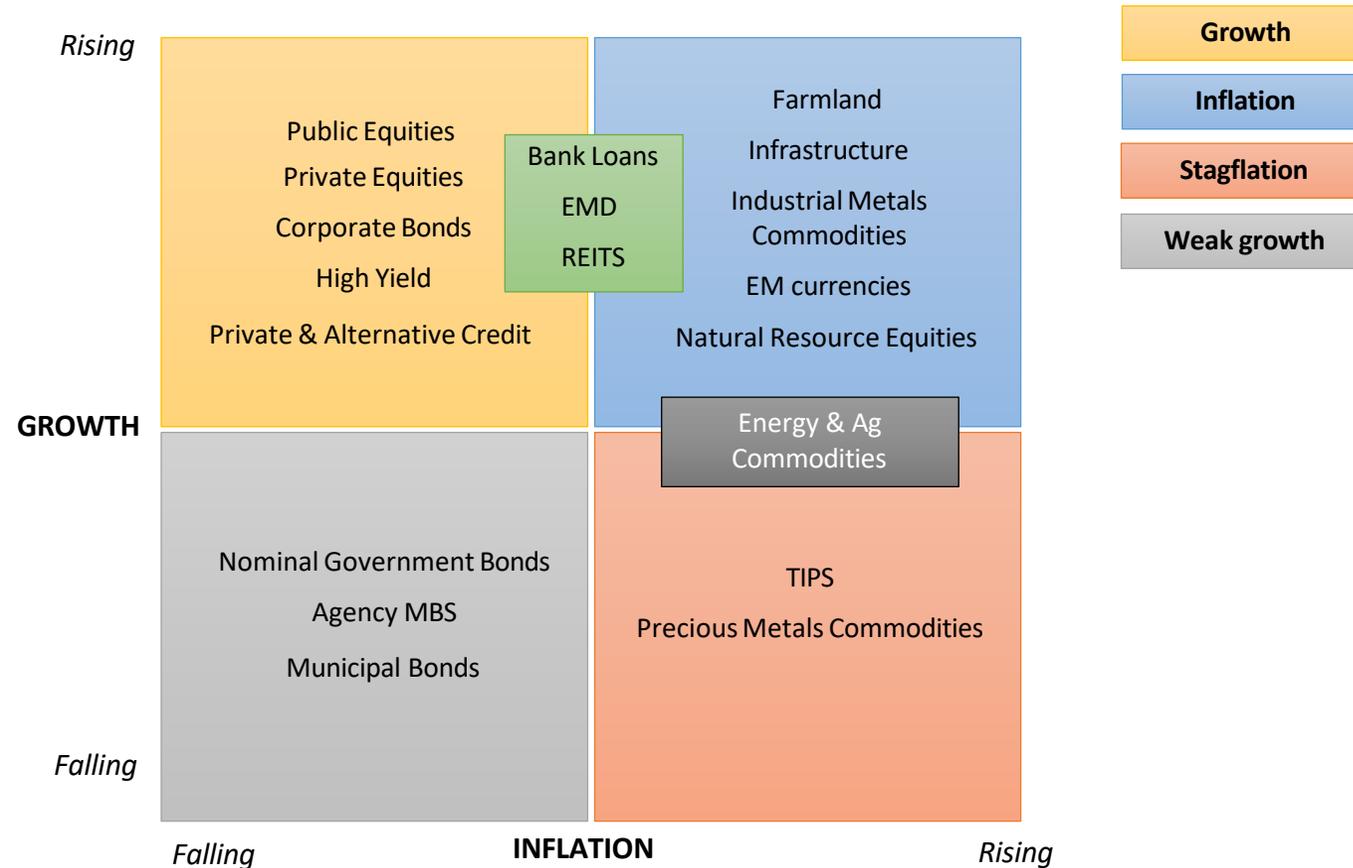
RVK Capital Market Assumptions - Expected Risk vs. Expected Return Per Asset Class



Color corresponds to prior chart

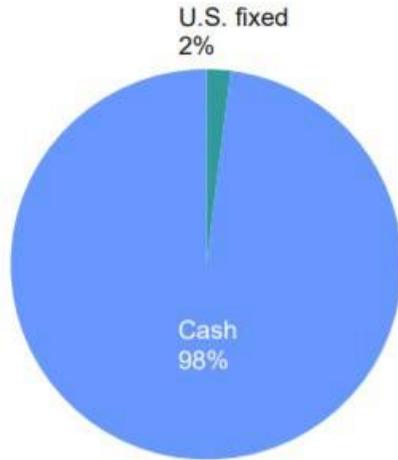
Source: RVK

RELATIVE ASSET CLASS PERFORMANCE BASED ON ECONOMIC ENVIRONMENTS



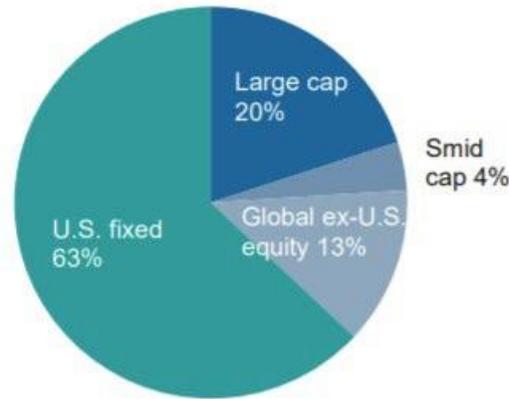
7% Expected Returns Over Past 30+ Years

Increasing Complexity →



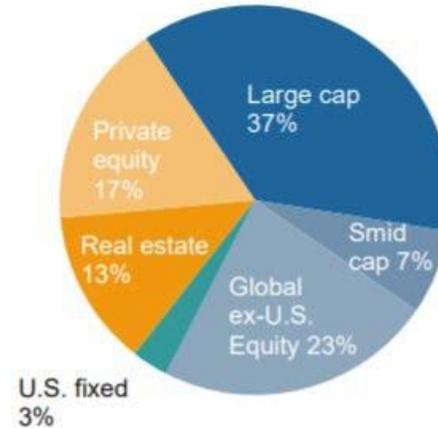
1991

Return: 7.0%
Risk: 1.1%



2006

Return: 7.0%
Risk: 6.7%



2021

Return: 7.0%
Risk: 17.3%

Increasing Risk →

In 1991, our expectations for cash and broad U.S. fixed income were 6.95% and 8.95%, respectively

Return-seeking assets were not required to earn a 7% projected return

15 years later, an investor would have needed over a third of the portfolio in public equities to achieve a 7% projected return, with 6x the portfolio volatility of 1991

Today an investor is required to include 97% in return-seeking assets to earn a 7% projected return at almost 16x the volatility compared to 1991

Annual Asset Allocation Studies

	Min	Max	Actual 12/31/2021 ¹	Target	Recommended Portfolio
Large/Mid Cap US Equity	0	8	4	4	4
Small Cap US Equity	0	5	3	3	3
Global Equity	25	40	39	29	29
Dev'd Large/Mid Int'l Equity	0	8	7	7	7
Emerging Markets Debt (Hard)	0	5	4	4	4
Private Equity	0	12	8	10	10
Private Credit	5	12	4	10	10
Non-Core Real Estate	0	5	2	4	4
US Agg Fixed Income	15	25	21	19	19
Core Real Estate	0	5	4	4	↓ 3
TIPS	0	5	4	3	3
Private Core Infrastructure/Farmland	0	5	1	3	↑ 4
Total			100	100	100
Growth			70	71	71
Downturn Hedging			21	19	19
Inflation Hedging			9	10	10
Expected Arithmetic Return			5.9	6.1	6.1
Expected Risk (Standard Deviation)			11.1	10.8	10.7
Expected Compound (Geometric Return)			5.3	5.6	5.6
Expected Return (Arithmetic)/Risk Ratio			0.53	0.56	0.57
RVK Expected Eq Beta (LCUS Eq = 1)			0.64	0.61	0.61
RVK Liquidity Metric (T-Bills = 100)			73	62	62

Growth

Downturn Hedging

Inflation Hedging

Monte Carlo Simulation Results

1 Year	Actual 12/31/2021	Target	Recommended Portfolio
1st Percentile	-24.78	-20.58	-20.77
5th Percentile	-11.94	-9.58	-9.68
25th Percentile	-0.78	0.19	0.22
50th Percentile	6.11	6.36	6.39
75th Percentile	13.23	12.61	12.63
95th Percentile	24.05	22.26	22.28
99th Percentile	31.88	28.91	29.01
3 Years			
1st Percentile	-12.51	-9.73	-9.90
5th Percentile	-5.61	-3.97	-4.03
25th Percentile	1.37	2.18	2.19
50th Percentile	5.73	5.98	6.00
75th Percentile	9.94	9.77	9.79
95th Percentile	15.86	15.02	15.06
99th Percentile	20.42	19.07	19.11
5 Years			
1st Percentile	-8.07	-6.01	-6.04
5th Percentile	-3.44	-2.13	-2.15
25th Percentile	2.14	2.88	2.87
50th Percentile	5.56	5.91	5.92
75th Percentile	8.98	8.91	8.93
95th Percentile	13.64	13.07	13.05
99th Percentile	16.9	16.01	16.03
10 Years			
1st Percentile	-4.39	-2.72	-2.76
5th Percentile	-1.21	-0.05	-0.08
25th Percentile	2.91	3.56	3.56
50th Percentile	5.39	5.74	5.76
75th Percentile	7.81	7.87	7.88
95th Percentile	11.2	10.87	10.87
99th Percentile	13.54	13.02	13.06

Percent Probability of Achieving or Exceeding Target Return

1 Year	Actual 12/31/2021	Target	Recommended Portfolio
Target 0%	72	76	76
Target 4%	58	60	60
Target 6.5%	48	49	50
Target 7%	46	47	47
Target 7.5%	45	45	45
Target 10%	36	34	35
3 Years			
Target 0%	81	85	85
Target 4%	61	64	64
Target 6.5%	45	46	46
Target 7%	41	43	43
Target 7.5%	39	39	39
Target 10%	25	24	24
5 Years			
Target 0%	86	89	89
Target 4%	62	66	67
Target 6.5%	43	44	44
Target 7%	39	40	40
Target 7.5%	35	36	36
Target 10%	19	17	18
10 Years			
Target 0%	92	95	95
Target 4%	65	71	71
Target 6.5%	38	41	41
Target 7%	33	35	35
Target 7.5%	28	29	29
Target 10%	10	9	9

VPIC Performance

Vermont Pension Investment Committee
Asset Allocation & Performance - Net of Fees

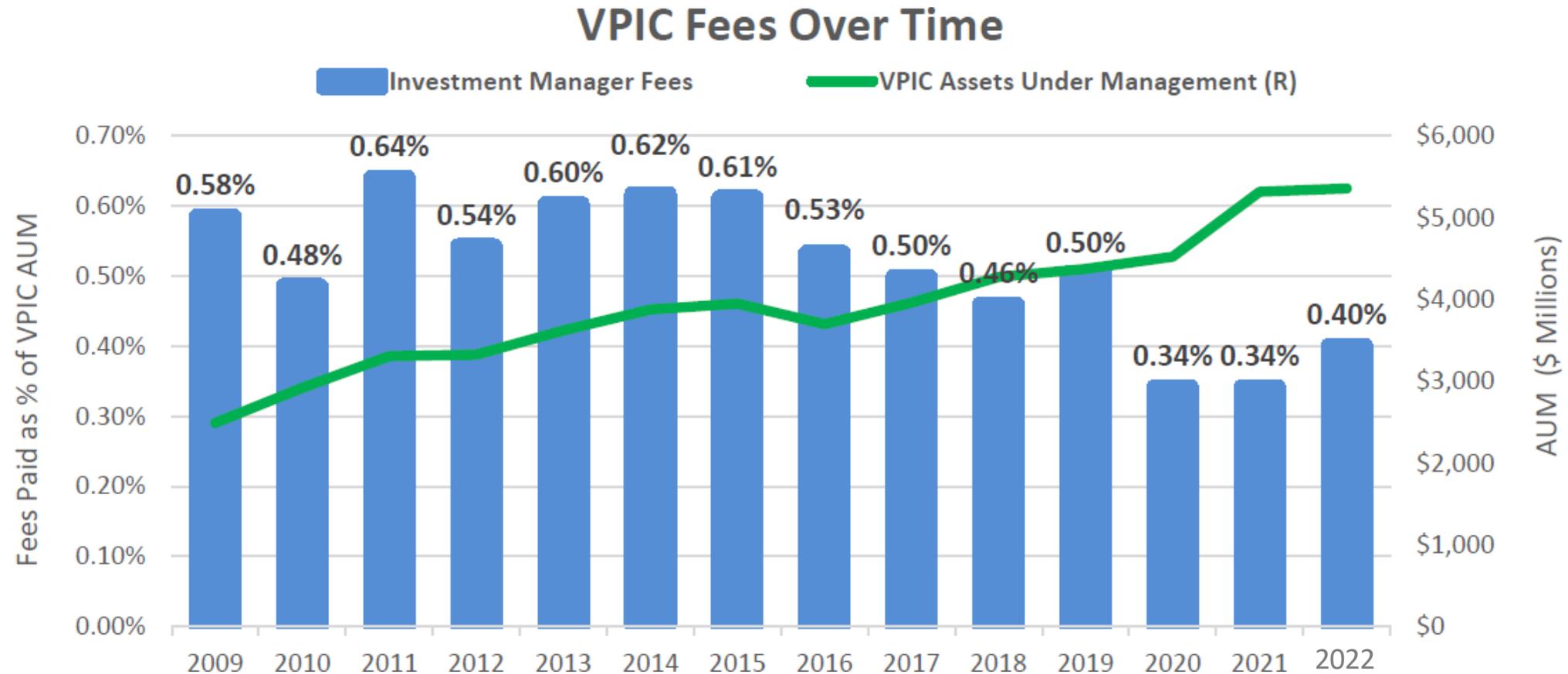
As of June 30, 2022

	Allocation			Performance (%)									
	Market Value (\$)	Actual (%)	Policy (%)	QTD	FYTD	1 Year	3 Years	5 Years	10 Years	15 Years	2021	Since Incep.	Inception Date
Total Fund	5,406,342,959	100.00	100.00	-8.32	-7.72	-7.72	6.14	6.44	6.51	4.83	14.06	5.80	07/01/2005
Target Allocation Index				-8.42	-7.12	-7.12	6.21	6.40	6.45	5.01	14.09	5.89	
Difference				0.10	-0.60	-0.60	-0.07	0.04	0.06	-0.18	-0.03	-0.09	
Actual Allocation Index				-9.21	-8.97	-8.97	5.01	5.59	6.12	4.78	13.32	5.66	
Difference				0.89	1.25	1.25	1.13	0.85	0.39	0.05	0.74	0.14	
All Public Plans (\$1B to \$10B)				-9.12	-8.18	-8.18	5.74	6.11	7.35	5.33	14.07	6.17	
Rank				42	47	47	40	40	84	78	51	71	

	Allocation			Performance (%)									
	Market Value (\$)	Actual (%)		QTD	FYTD	1 Year	3 Years	5 Years	10 Years	15 Years	2021	Since Incep.	Inception Date
Growth Assets	3,745,455,824	69.28		-10.64	-8.77	-8.77	-	-	-	-	20.47	8.14	09/01/2020
MSCI ACW IM Index (USD) (Net)				-15.83	-16.52	-16.52	5.98	6.70	8.71	4.86	18.22	2.94	
Difference				5.29	7.75	7.75	-	-	-	-	2.25	5.20	
Downturn Hedging Assets	1,136,934,559	21.03		-4.65	-10.22	-10.22	-	-	-	-	-1.66	-6.14	09/01/2020
Bloomberg US Agg Bond Index				-4.69	-10.29	-10.29	-0.94	0.88	1.54	3.26	-1.55	-6.27	
Difference				0.04	0.07	0.07	-	-	-	-	-0.11	0.13	
Inflation Hedging Assets	523,952,576	9.69		0.70	7.13	7.13	-	-	-	-	6.47	4.27	09/01/2020
Consumer Price Index+2.5%				3.70	11.79	11.79	7.60	6.48	5.15	4.93	9.71	10.09	
Difference				-3.00	-4.66	-4.66	-	-	-	-	-3.24	-5.82	

Fees

Before investing dollars, VPIC makes a concerted effort to ensure all allocated dollars have an overall value proposition. The VPIC has reduced investment fees over the last decade by 0.28%, while the assets under management have increased by 72% during the same period.



Total Fee is preliminary as many investment managers report audited financials on a lagged basis

Vermont Pension Investment Commission Budget FY2024							
Item	FY 2023 Request	FY 2023 Budget	FY 2024 Budget	Dollar Change FY 2023 Budget to 2024 Request	Percentage Change FY 2023 Budget to 2024 Request	Contribution to Budget FY 2024	Change to Budget
Administrative							
	Administrative Support	338,292	443,427	105,135	31%	19%	5%
	Board Chair Salary	42,552	44,650	2,098	5%	2%	0%
	IT Hardware/Software/Supplies	1,530	1,700	170	11%	0%	0%
	ADS Allocated Charges	7,340	6,000	-1,340	-18%	0%	0%
	Postage/Printing/Binding/Communications/Advertising	1,000	1,000	0	0%	0%	0%
	Fee for Space	21,740	21,740	0	0%	1%	0%
	Other Rentals	5,000	3,600	-1,400	-28%	0%	0%
	Office Supplies	2,900	3,500	600	21%	0%	0%
	Dues	14,100	15,000	900	6%	1%	0%
	Staff Travel	50,000	50,000	0	0%	2%	0%
	Office Equipment	15,000	10,000	-5,000	-33%	0%	0%
	VPIC Meeting Expenses & Instate Trainings	45,500	62,000	16,500	36%	3%	1%
	Other Purchased Services	15,000	15,000	0	0%	1%	0%
			677,617	117,663	21%	29%	6%
Benefits							
	Staff Insurance/Health/Life/Taxes & Chair (Paid Leave)	188,246	245,047	56,801	30%	10%	3%
			245,047	56,801	30%	10%	3%
Studies							
	Asset Liability Study	100,000	100,000	0	0%	4%	0%
	Other Studies	50,000	50,000	0	0%	2%	0%
			150,000	0	0%	6%	0%
Agency Support							
	Attorney General/Legal	85,868	90,000	4,132	5%	4%	0%
	Auditor of Accounts	66,000	68,200	2,200	3%	3%	0%
	Human Resources	0	1,500	1,500	100%	0%	0%
	AoA Financial Services Administrative Support	20,000	10,000	-10,000	-50%	0%	0%
	Office of the State Treasurer	35,000	10,000	-25,000	-71%	0%	-1%
			179,700	-27,168	-13%	8%	-1%
Vendors							
	Investment Consultant	410,000	410,000	0	0%	17%	0%
	Custodian Bank	350,000	375,000	25,000	7%	16%	1%
	Proxy Voting & ESG Advisor	35,000	36,200	1,200	3%	2%	0%
	Legal Consultant	0	50,000	50,000	100%	2%	2%
	Investment Data Warehouse	162,500	165,000	2,500	2%	7%	0%
	Subscriptions	49,116	50,300	1,184	2%	2%	0%
	Actuary	25,000	25,000	0	0%	1%	0%
			1,111,500	79,884	8%	47%	4%
	TOTAL	2,136,685	2,363,864	227,179	11%		
TOTAL COST TO VPIC: 0.04% (FY 2024 Budget/NAV)							
	Special Funds - State Retirement System		100%	VMERS	VSTRS	VSERS	
Breakdown based on 8/31/2022 VPIC NAV				15%	44%	41%	

Environmental, Social, & Governance

“ESG” is a collective term to describe environmental, social and governance factors whose financial impact is not captured by traditional financial measures. The categories below include a sample of ESG issues that may be material to investment returns.

Environmental

- Energy management
- Environmental impact of supply chains & products
- Capture Emissions
- Climate change policies

Social

- Product safety and ethics
- Labor rights
- Consumer data security
- Employee diversity
- Employee health and safety

Governance

- Board structure and gender diversity
- Business ethics
- Accounting policies and controls

VPIC Develops and Approves Carbon Reduction and Mitigation Policy
April 2022

2022

Becomes PRI signatory
Seeking assistance in furthering its ESG integration

2019

Revises ESG Policy
As recommended by the VPIC ESG Subcommittee, the VPIC amended the ESG policy to expand the framework for ESG considerations in the management of the assets.

2017

Files its first proxy resolution
VPIC begins engaging companies directly on ESG to preserve the long-term value of the holding

2014

Adopts an ESG policy
VPIC adopted its first ESG policy in 2013 to memorialize the actions it had been taking to integrate ESG considerations into the investment process

2013

2021

VPIC launches Low Carbon Transition Readiness Fund
The VPIC invested \$200 million to launch the fund with BlackRock and adopts Carbon Mitigation Policy

2020

ESG tips the scale in private markets
VPIC commits \$30 million to a private equity fund with a measurable sustainability impact as well as top quartile historical returns

VPIC'S ESG JOURNEY

VPIC adopted an [ESG policy](#) in 2013 to articulate the integration of ESG considerations into the VPIC investment process. Over time this initiative has evolved to engagement with companies, investment managers, vendors, regulators, and industry groups on ESG considerations. Through strategic partnerships the Commission has used its voice to help move ESG discussions forward.

Assessment & Monitoring of ESG Integration

- Per the VPIC ESG policy the Commission incorporates evaluation of ESG considerations into the procurement and review procedures for investment managers. VPIC manager selection is done in coordination with an independent investment consultant to evaluate the ability of each prospective investment manager to integrate traditional financial factors, as well as ESG-related value drivers and risks into the investment process. This includes all ESG policies, processes, and systems. VPIC does not directly invest in securities, so it is imperative each manager delegated this responsibility is thoroughly vetted.

VPIC explicitly addressed **ESG considerations**

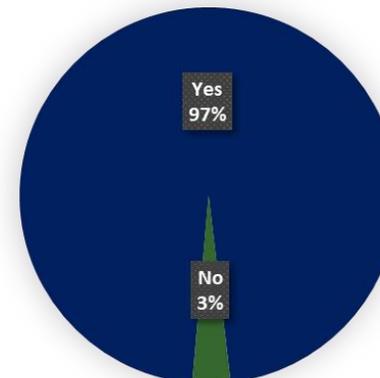
in **all** of the **22 investment manager searches**

it conducted since amending the [VPIC ESG Policy](#) in June 2017

- Once the investment is made, the Commission conducts ongoing evaluations of each manager on a quarterly basis and issues an annual survey to managers to evaluate their ESG capabilities and future goals to evolve their investment process to address new and existing ESG considerations. You can find the survey responses [at this link](#).

18 VPIC Managers investing
\$5.8 billion (97% AUM)
are signatories of the
**Principles for Responsible Investing
(PRI)**

VPIC Assets Managed
by PRI Signatories



VPIC Executing Shareholder Rights

Proxy Voting

- 16,328 proxy proposals
- 1,224 companies

Corporate Engagement

- 32 proposals filed since 2016
- Lead filer 28% of the time

Strategic Partnerships

- Participated in 10 investor coalitions
- Signatory to 18 letter campaigns

NEXT STEPS FOR ESG INTEGRATION

- *The Commission believes engagement with companies has proven to be effective in changing corporate behavior. In acknowledgment, the VPIC has adopted an ESG Policy. As technology and capabilities evolve to assist investors, the Commission adopted a **Carbon Reduction & Mitigation Policy**.*
- *Data transparency is highly valued by the Commission as fiduciaries of the pension fund. To that end, the VPIC invested in a recordkeeping system for the pension which was completed in early 2022. Staff will work with existing vendors and evaluate others in the industry to **employ more sophisticated climate risk tracking metrics**. This will support the goals of a future Carbon Reduction policy.*
- *Through engagement with VPIC investment managers it was identified that the private market managers incorporate ESG into their investment process and are PRI signatories; however, in some markets, they do not have the same influence as public equity shareholders to effect change. To encourage private market managers to find alternative ways to move portfolio companies to sustainable practices, VPIC peers are **incorporating contractual language that requires the manager to acknowledge the importance of integrating ESG factors** into the investment process and maintain their PRI signatory status. VPIC will evaluate if this type of contractual language might be considered on a case-by-case basis for private market managers.*
- *The VPIC ESG Committee will **draft a comment letter** in support of the monumental proposed rule by the [SEC for climate change disclosure](#) for the VPIC's consideration.*

2022 COMPENSATION STUDY

Act 75 of 2021 tasked VPIC with Engaging an Independent Consultant to Study Staffing and Compensation

- VPIC engaged Mercer to conduct the study; Mercer presented the results to VPIC in October 2022.*
- VPIC compensation ranked at the 90th percentile among similar-sized peers, exposing VPIC to significant flight risk.*
- VPIC cost of operations ranked at 90th among similar similar-sized Underinvesting in VPIC business could expose VPIC to unnecessary business risk.*
- Recommended: Participate in McLagan State Pension Compensation Survey to ensure that VPIC has current State Pension data going forward.*
- Target above-market salary increases for the next 3-4 years to catch up to the market and position VPIC closer to the median salary levels of the market.*
- Consider a performance-based annual incentive which would tie the compensation levels of the investment professionals to the short-and medium-term (1-5 year) performance of VPIC and is in line with other state pension plans.*
- Review compensation elements bi-annually to maintain competitive positioning and respond to changes in the labor market as appropriate.*

2023 VPIC LEGISLATIVE INITIATIVES

- *Removing remaining references to the Office of State Treasurer from VPIC's enabling statute (Title 3, Chapter 17 to further clarify VPIC's statutory autonomy.*
- *Declassifying VPIC's two classified positions would allow VPIC to implement an unclassified pay plan with the Governor's administration and begin to address Mercer's compensation recommendations.*
- *Adding an investment accounting position to enable VPIC to reduce private equity and other illiquid investment management fees and to take over management of other state funds including retiree healthcare and state endowment funds*

**VERMONT PENSION INVESTMENT
COMMISSION**

Thank You for Your Support!